

**PASS-THROUGH ACCOUNT
FOR POST-HERITAGE ELECTRICITY SUPPLY**

**(Exhibit replaces original version
dated 16 August 2006)**

Table of Contents

1 BACKGROUND.....3

2 COMPONENTS OF THE PASS-THROUGH ACCOUNT3

3 METHOD FOR TRANSFER OF DIFFERENTIALS IN THE PASS-THROUGH ACCOUNT.....4

 3.1 Review4

 3.2 Proposed New Method.....4

 3.3 Arguments in Favour of the Proposal.....5

4 METHOD FOR ALLOCATION OF DIFFERENTIALS TO CUSTOMER CLASSES..6

5 BALANCE OF PASS-THROUGH ACCOUNT AS AT 31 DECEMBER 2005.....7

6 PASS-THROUGH ACCOUNT PROJECTIONS FOR 20068

7 ACCOUNTING AND REGULATORY TREATMENTS9

 7.1 Disposal Method.....9

 7.2 Interest Calculation.....10

 7.3 Effect on Rate Base11

8 PROPOSED MODIFICATIONS TO THE SUPPLY COST TRANSFER PROCESS
11

 8.1 Data Ascertained at Year-End.....11

 8.2 Complexity of Monthly Approach.....12

 8.3 Treatment Associated with the Cost Allocation Method12

9 CONCLUSION13

1 BACKGROUND

In application R-3492-2002, Phase 1, the Distributor submitted the principle of transfer of supply costs to the Régie for approval. The Distributor's purpose was to obtain recognition in its cost of service, as well as recovery in its rates, of the sum total of supply costs and of any differential between real and projected supply costs, for both the portion corresponding to the heritage pool volume and beyond that volume.

In decision D-2003-93, the Régie approved this principle but limited its scope to the costs of the heritage pool. In doing so, it recognized these costs as an intrinsic component of the cost of service and allowed the Distributor to record in a deferral account any variation, unforeseen at ratesetting time, in heritage pool supply costs for each customer class further to the updating of the Schedule I rates by the Régie or the Government.

Furthermore, since the heritage pool volume was soon to be exceeded, the Distributor, in case R-3541-2004, submitted an application for recognition of the principle of supply cost transfer beyond the heritage pool volume.

In decision D-2005-34, the Régie approved this principle. Decision D-2005-132, for its part, specifies the scope of the approved transfer. Thus, all supply costs are recognized and must be reflected in the rates. In addition, the sum total of the differentials between the real and projected supply costs of a given year, net of revenues attributable to the supply component, are recorded in a deferral account, the pass-through account, for subsequent recovery.

In case R-3579-2005, the Distributor presented, for guidance, a description of the pass-through account for post-heritage electricity supply for the period covering the first six months of 2005. In decision D-2006-34, the Régie renewed the pass-through account for 2006 and subsequent years and authorized the calculation of the return on the account balance at the average cost of capital rate. It also approved the method of recording of the differentials in the account on the basis of real data covering a 12-month period from January 1 to December 31.

2 COMPONENTS OF THE PASS-THROUGH ACCOUNT

The differentials recorded in the pass-through account can be defined as the excess real supply costs over the costs projected for ratesetting purposes, net of supply revenues. Three major items are included: the volume differential, the price differential, and the revenue differential. The calculation of the revenue differential is based on the principle that additional sales normally correspond to additional volumes of supply. These additional sales generate additional revenues and, moreover, contribute to the recovery of the excess supply costs. The reverse effect may also be observed; that is, lower revenues should correspond to lower-than-expected volumes purchased.

Certain adjustments must be made to the pass-through calculation beyond the heritage pool volume to take account of the following factors:

- Compensation received to make up for a supplier's failure to deliver a quantity of energy stipulated by contract, forcing the Distributor to procure energy on short-term markets. The compensation would be applied against charges recorded in the pass-through account, more specifically to the price differential;
- The adjustment arising from real-time supply management. This concerns the heritage pool volume that is unused despite optimized deployment of the hourly megawattages under the curve prescribed by Order-in-Council 1277-2001 (*bâtonnets*). This volume is only definitively known at year-end. It reduces the account balance in terms of the volume differential for the undisbursed supply costs.
- A positive or negative differential between the loss factor observed during the year and the projected loss factor would have an effect on the pass-through account at all levels. In terms of the price differential, the cost of heritage electricity is determined based on the projected loss factor, which means that this cost should be different with a different real loss factor. In terms of the volume differential, a real loss factor different from the projected loss factor implies a change in the energy volume purchased. The volume differential and price differential associated with the loss factor cancel each other out, as shown in Appendix 1 of this document, and these are therefore excluded from the calculation. However, the revenue differential must be calculated from real sales based on a real loss factor.

3 METHOD FOR TRANSFER OF DIFFERENTIALS IN THE PASS-THROUGH ACCOUNT

3.1 Review

In decision D-2006-34, the Régie accepted the Distributor's proposal to include the supply cost differentials over a period of 12 months, January 1 to December 31, in the rate case for the second year following the calculation period. These differentials are determined as the difference between the real and projected supply costs after adjustment for the revenue differential and the unused heritage pool volumes.

Several factors have led the Distributor to apply for a modification of the calculation and disposal method for the pass-through account. This method would be applicable to the differentials for 2006 and subsequent years.

3.2 Proposed New Method

For a given year, the year 2006 being the reference year for the purposes of the following explanations, this method consists of:

1. Analysis of the differentials on an annual basis, from January 1 to December 31.
2. Inclusion of the estimated supply cost differentials for the reference year (2006), without interest, in the rates for the subsequent case (that of test year 2007).

These differentials are determined on the basis of 4 real months (January-April 2006) and 8 projected months (May-December 2006).

3. Inclusion of the required adjustments (in view of the final supply cost differentials observed, determined on the basis of 12 real months, January to December 2006) in the rate case for the second year following (2008). The final differentials reflect the unused heritage pool volumes at year-end (2006) and the applicable interest over the period preceding inclusion of the differentials in the rates (i.e., the period from 1 January to 31 December 2007).¹ Generally speaking, the required adjustments correspond to the difference between the final real differentials for 2006 and differentials already included in the previous rate case (2007) for that same year (2006).

3.3 Arguments in Favour of the Proposal

The Distributor's proposal has the following advantages:

- it contributes to better matching of costs with the right customer generations by reducing the lag in the treatment of the pass-through account;
- it respects the principle of the calculation of differentials on an annual basis, January 1 to December 31;
- it reduces the interest applicable to the unrecovered or unrecorded pass-through account balances;
- the supply cost differentials immediately reflected in the following rate year refer to three of the four winter peak months;
- the Distributor can easily operationalize this proposal because:
 - it enables it to meet the regulatory deadline set out by the Régie in its filing guide;
 - all relevant data are known at the time of filing with the Régie; they are determined on the basis of 4 real months and 12 projected months, i.e., the same basis as the rate case as a whole.

In the particular context of 2006, where weather conditions early in the year were much hotter than normal, this option gives rise to a very large credit balance estimated at \$182 M, thus reducing the Distributor's cost of service for 2007 for the benefit of all Québec customers.

The table below illustrates the impact of 2006 weather conditions on the Distributor's energy requirements.

¹ See the interest calculation in section 4.2 below.

TABLE 1
Impact of weather conditions on Distributor's regular energy requirements (GWh)
January-April 2006

	January	February	March	April	January-April
Standard deviation ^a	725	645	605	390	1 437
Extreme case ^a	-1 578	-1 537	-1 172	-906	-3 417
Real impact for 2006	-1 540	-108	-330	-538	-2 516
Probability of weather impact's being more negative than the real impact	1.4%	37.1%	32.4%	10.5%	2.4%

^aWeather variability statistics derived from 210 hourly simulations of Distributor's regular requirements for January-April 2006 based on the various weather conditions observed from 1971 to 2000.

The impact of weather conditions on the Distributor's energy requirements for January-April 2006 represents nearly 60% of the 4.3 TW h decrease in projected demand between projected year 2006 in rate case R-3579-2005² and base year 2006 in the current case.

Given these arguments and the magnitude of the resulting credit balance for 2006, the Distributor thinks that it is appropriate for the customers to benefit from it starting in 2007.

Thus, for the purposes of this case, the Distributor is treating the pass-through account balances for 2005 and 2006 separately. For 2005, the method approved by the Régie was applied in every particular. For 2006, the Distributor is taking account of the new proposal and including an initial pass-through balance for this year, based on 4 real months and 8 projected months. The details of the balances considered are provided in sections 5 and 6. Finally, as mentioned, the 2008 rate case will include the adjustments necessary to base the differentials for 2006 exclusively on real data.

4 METHOD FOR ALLOCATION OF DIFFERENTIALS TO CUSTOMER CLASSES

Although they are only ascertained definitively at year-end, the differentials between real and projected sales have, to date, being calculated monthly by customer class for all heritage and post-heritage sales, taking account of the aforementioned adjustments and the numerous assumptions necessary to calculate them.

At this stage, it is important to recall the close relationship between the supply cost allocation method and the calculation of the pass-through for the supply costs to be recorded in the account. The volumes and costs projected for a given year are determined using the method of the Distributor's load factor. The pass-through is calculated for each customer class using this method.

² See section 1.2 of Exhibit HQD-2, Document 1 on projected demand.

In conformity with the principles of cost causation and consistency with the supply cost allocation method, the Distributor has devised rules for allocating the costs and the real and projected monthly volumes among the customer classes. In addition to the assumptions detailed in case R-3579-2005, Exhibit HQD-4, Document 4, p. 13, and taking account of the additional information ascertained at year-end, the unused heritage volume is allocated monthly to each customer class prorata to the differentials between total real sales and projected sales.

5 PASS-THROUGH ACCOUNT BALANCE AS AT 31 DECEMBER 2005

The year 2005 was the first year in which the heritage pool volume was exceeded and for which the Distributor currently has all the data necessary to take account of the differentials accrued in the pass-through account.

Table 1 presents the net differential calculated by customer class for 2005, distinguishing the volume differential, the price differential, and the revenue differential. As at 31 December 2005, the net total differential in the account was \$36 M and breaks down as follows:

- volume differential: a 439 GWh increase in the volume of post-heritage electricity purchased, for an amount of \$35.1 M, partially counterbalanced by a 286 GWh decrease in the heritage pool volume purchased, for an amount of \$10.9 M;
- price differential: a 0.2 ¢/kWh³ decrease in the price of post-heritage electricity as compared with the projected price, for an amount of \$4.9 M;
- revenue differential: a revenue loss of \$14.3 M due to sales lower by 417 GWh, in turn due to:
 - volume lower by 571 GWh associated with an increase in the projected loss factor from 7.5% to the observed factor of 7.86%;
 - a net 154 GWh increase in the heritage and post-heritage pool volumes;
- recovery of \$2.1 M in deferred charges for special contracts with the Generator during the current year. Note that the calculations for the pass-through account must include special contracts since they are part of the heritage and post-heritage pools;
- accrued interest of \$4.6 M calculated over 2005 and 2006, for respective amounts of \$1.9 M and \$2.7 M.

³ See Appendix 2 of this document.

**TABLE 2
PASS-THROUGH ACCOUNT DETAILS**

(1) Customer class	(2) Volume differential		(3)	(4)	(5)	(6)=(2)+(3)+(4)-(5)	(7) Interest		(8)	(9)=(6)+(7)+(8)
	Post-heritage M\$	Heritage M\$	Price differential M\$	Revenue differential M\$	Net differential M\$	2005 M\$	2006 M\$	Charges deferred in 2007 M\$		
Domestic										
Rates D and DM	11.4	(17.6)	(0.9)	(20.2)	13.1	0.8	1.2	15.2		
Rate DH	0.0	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0		
Rate DT	0.5	(1.3)	(0.1)	(1.4)	0.5	0.0	0.0	0.6		
Total	11.9	(18.9)	(1.0)	(21.6)	13.6	0.9	1.3	15.8		
Small and medium power										
Rate G and flat rate	2.9	1.8	(0.4)	1.5	2.8	0.2	0.2	3.2		
Rate G9	0.2	0.1	(0.0)	0.0	0.2	0.0	0.0	0.3		
Rate M	5.8	6.8	(0.9)	6.4	5.4	0.3	0.4	6.1		
Public lighting and Sent. rates	0.2	0.0	(0.0)	0.1	0.2	0.0	0.0	0.2		
Total	9.1	8.7	(1.3)	8.0	8.6	0.5	0.7	9.8		
Large power										
Rate L	8.9	(29.7)	(1.8)	(32.0)	9.2	0.5	0.7	10.5		
Rate H	0.0	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0		
Special contracts	5.2	29.0	(0.8)	31.3	2.1	-	-	-		
Total	14.0	(0.7)	(2.7)	(0.7)	11.3	0.5	0.7	10.5		
Total	35.1	(10.9)	(4.9)	(14.3)	33.5					
Total excluding special contracts					31.4	1.9	2.7	36.0		

6 PASS-THROUGH ACCOUNT PROJECTIONS FOR 2006

As discussed in section 3, the Distributor proposes to reflect in its 2007 rates the pass-through account projections for 2006 by incorporating 4 months of real differentials and 8 months of projected differentials. On this basis, the pass-through account balance corresponds to a credit of \$182 M in 2006.

**TABLE 3
PASS-THROUGH ACCOUNT PROJECTIONS FOR 2006**

(1) Customer class	(2) Volume differential		(3)	(4)	(5)	(6)=(2)+(3)+(4)-(5)
	Post-heritage M\$	Heritage M\$	Price differential M\$	Revenue differential M\$	Net differential projected in 2006 M\$	
Domestic						
Rates D and DM	(145.0)	(22.8)	17.0	(73.2)	(77.7)	
Rate DH	(0.0)	0.0	0.0	0.0	(0.0)	
Rate DT	(5.2)	4.8	0.7	3.6	(3.2)	
Total	(150.2)	(18.0)	17.7	(69.6)	(80.9)	
Small and medium power						
Rate G and flat rate	(29.5)	0.4	3.5	(9.4)	(16.2)	
Rate G9	(2.5)	0.2	0.3	(0.6)	(1.4)	
Rate M	(56.4)	9.7	6.9	(8.1)	(31.7)	
Public lighting and Sent. rates	(1.1)	0.4	0.1	0.0	(0.7)	
Total	(89.6)	10.7	10.9	(18.1)	(49.8)	
Large power						
Rate L	(93.6)	(1.0)	11.1	(32.4)	(51.2)	
Rate H	(0.0)	(0.0)	0.0	(0.0)	(0.0)	
Special contracts	(52.6)	(2.5)	6.2	(20.5)	(28.4)	
Total	(146.2)	(3.6)	17.2	(53.0)	(79.6)	
Total	(386.0)	(10.9)	45.8	(140.7)	(210.4)	
Total excluding special contracts					(182.0)	

This credit takes account of the following items:

- Volume differential: a 4 074 GWh decrease in the volume of post-heritage electricity purchased, for an amount of \$386 M. Despite real-time optimization of supply management, a heritage pool volume of 280 GWh is now projected to be unused, for an amount of \$10.9 M.
- Price differential: a 1.35 ¢/kWh increase⁴ in the price of post-heritage electricity as compared with the projected price, for an amount of \$45.8 M.
- Revenue differential: a revenue loss of \$140.7 M due to a 4 495 GWh reduction in sales, which is in turn due to:
 - a volume reduction by 139 GWh associated with an increase in the projected loss factor from 7.5% to a projected factor of 7.58%;
 - a net 4 356 GWh decrease in the heritage and post-heritage pool volumes.
- The projected deduction of \$ -28.4 M of deferred charges for special contracts.

Considering the basis of the interest calculation proposed in section 7.2, the credit amount of \$182 M excludes all interest. The Distributor will apply interest as from 31 December 2006, i.e., once all real supply cost differentials for 2006 are known.

The required adjustments described in paragraph 3 of section 3.2 will correspond to the difference between the \$182 M included in the cost of service for 2007 and the final real differentials for the pass-through account for 2006. They will be reflected in the 2008 rate case.

7 ACCOUNTING AND REGULATORY TREATMENTS

This section deals with the workings of the pass-through account for post-heritage pool supply and the disposal of its balance for purposes of cost recovery in the rates.

7.1 Disposal Method

In case R-3579-2005, the Distributor stated that the cost differentials recorded in the pass-through account represent charges which, if they had been known at ratesetting time, would have been fully included in the revenue requirements for the corresponding test year. Thus, the Distributor would normally have proposed total annual disposal of the account balance. Moreover, the Distributor's view was that the magnitude of the amounts applied to the account could lead it to prefer deferral and smoothing of the differentials to be included in its cost of service. At that time the Distributor considered it premature to propose a measure for disposal of this account before getting a full picture of it at the end of its first year of use (2005). Thus, in decision D-2006-34, the Régie asked the Distributor to present a disposal method for the account in the next rate case.

⁴ See Appendix 2 of this document.

The overall picture for 2005, shown in Table 1, indicates a pass-through account balance of \$36 M, composed of \$31.4 M for the cost differential and \$4.6 M in interest charges for 2005 and 2006. Likewise, the pass-through balance projection for 2006, included in the 2007 supply costs, amounts to \$ -182 M.

The Distributor proposes to dispose of these balances (for 2005 and 2006) by including them in their entirety, without stabilization measures, in the revenue requirements for test year 2007. It seems desirable, for the sake of intergenerational equity, to include these costs now. The Distributor emphasizes that, as reflected in this case, the differentials could vary in either direction over time. It should be stressed, though, that these differentials merely represent a fair accounting for the costs actually incurred, as indicated in section 52.1 of the *Act respecting the Régie de l'énergie*.

Finally, since the sums accrued in the account relate to energy purchases for supply, they will be applied to the heading of electricity purchases when they are included in the revenue requirements.

7.2 Interest Calculation

As requested by the Régie in decision D-2005-34, the differentials for 2005 were calculated and recorded in the pass-through account on a monthly basis. Consequently, interest was calculated on the balance at the end of the preceding month. This method is consistent with the one applied with respect to the deferral account for Rate BT. Moreover, given the specific nature of the year-end adjustment, the Distributor is asking for authorization to calculate the differentials on an annual rather than a monthly basis starting in 2006. This new practice would entail calculation of interest on the account balance as at December 31 of a given year, and the current interest as of January 1 of the following year. The Distributor's view is that this method is more representative of the effects of supply management relating to the year as a whole, and is not biased by the fact that the adjustment for real-time management is not known until year-end. The calculation of interest from differentials determined monthly considers the moment in time when the amounts are recorded in the account, giving decreasing weight to amounts recorded later in the year. Thus, although the adjustment for real-time management results from management covering the entire year, and although it may have a noticeable and at times contrary impact on the year-end balance, it does not enter into the calculation of interest for the current year.

The calculation of differentials on an annual basis makes it possible to take account of all real differentials and adjustments resulting from post-heritage supply management and to calculate interest on the sum total of these differentials and adjustments, giving them the same weight.

The Distributor reiterates that the pass-through account balance projection for 2006 includes no interest. The interest applicable in 2007 on the 2006 balance will be calculated from the final real differentials observed and will be included in the 2008 rate case.

7.3 Effect on Rate Base

In case R-3579-2005, the Distributor requested authorization to include the pass-through account for post-heritage supply costs in the rate base. Specifically, the differentials would first be recorded in a non-rate-base account, bearing interest at the average cost of capital rate, and the balance of this account (including accrued interest) would be transferred to a second account at the start of the second test year following the one covered by the differentials calculation. This second account would appear in the rate base for the purpose of its disposal. The inclusion of the second account in the rate base was designed to include the financing costs corresponding to the unamortized balance of the account in the revenue requirements throughout the period of disposal.

In the current application, the Distributor proposes that the entire balance of the pass-through account as at 31 December 2005 be included in the 2007 revenue requirements. In this context, the balance will be disposed of without stabilization measures, obviating the use or inclusion of the second account in the rate base. The non-rate-base account balance is included in the revenues without passing through the rate base. In this way, no unamortized balance will remain in the rate base. The follow-up for the 2006 pass-through account will also be done via the non-rate-base account. The differential between what was included in the 2007 cost of service (\$ -182 M) and the real supply costs for 2006 will be recorded in the non-rate-base account, to which the authorized rate of return for 2007 will apply, as planned.

8 PROPOSED MODIFICATIONS TO THE SUPPLY COST TRANSFER PROCESS

The calculation of deferred charges based on the Régie's currently required monthly sales evaluation is highly complex. It requires the inclusion of many assumptions and gives a false impression of accuracy. For these reasons, the Distributor proposes follow-up for the pass-through account on an annual basis. Several factors support this proposal:

- the complete data is only known on an annual basis;
- the level of complexity involved in monthly calculations is high;
- the baseline data serving to calculate the pass-through account balance are determined on an annual basis.

8.1 Data Ascertained at Year-End

Among the decisive information not known until year-end is the ordering in time of the hourly megawattages defined by the curve given in Order-in-Council 1277-2001 (*bâtonnets*) that are associated with the heritage pool volume and the determination of real loss factors. This data makes it necessary to redo the calculations month by month once the year has ended. If the process were carried out on an annual basis, it would

obviate all sorts of complexities associated with the retroactive compilation of monthly differentials.

8.2 Complexity of Monthly Approach

In view of the level of accuracy required by the Régie, the evaluation of differentials on a monthly basis requires several assumptions additional to those required for supply management; these may have significant impacts on the allocation of the pass-through account to the customer classes, impacts that have little to do with cost causation:

- The monthly allocation of heritage pool electricity using the same rules of proportionality as those serving to determine these volumes annually does not yield the same results as annual heritage pool allocation, since the allocation of volumes by customer classes is not the same each month. In addition, the costs and heritage volumes for a specific year, approved by the Government through its orders-in-council, are determined on an annual basis.
- Since the unused heritage pool volume can only be ascertained at year-end, the monthly allocation of this volume makes it necessary to reconstruct a month-by-month history after the fact, while for purposes of supply management, the agreement with the supplier only requires annual volume reconciliation. The ordering in time of the hourly megawattages defined by the curve given in Order-in-Council 1277-2001 (*bâtonnets*) optimizes procurement on an annual basis across all customer classes. From this standpoint, the allocation of unused heritage electricity reflects randomness more than it does true causation.
- The month-by-month calculation may have the effect of allocating to customer classes an average monthly cost significantly different from the projected one. For the reasons discussed above, while the average monthly unit cost reflects the circumstances of a given month, it is also influenced by the annual optimization of supply management. For example, a significant reduction in energy consumption due to fair weather could mean a very high unit cost because of the existence of contracts without a reduction option or due to the sale of surplus electricity at a loss. This cost would then be allocated solely to the reduced sales of the customer classes present during that period.
- The monthly calculations for the pass-through account necessitate the evaluation and reconciliation of the loss factor on the same basis. Currently, the observed differentials may be relatively significant on a monthly basis and result essentially from the month-by-month distribution of sales.

8.3 Treatment Associated with the Cost Allocation Method

The analysis of the additional complexity inherent in monthly treatment of supply cost differentials cannot be uncoupled from the cost allocation method by customer class. This analysis is currently based on the method involving the Distributor's load factor,

and the assumptions adopted for supply cost transfer must be inherent in the same method as those initially used to establish the cost projection.

In the event that the Régie adopts marginal treatment, this will make the differentials calculation more cumbersome, particularly in regard to the following:

- the heightened complexity of accounting on an hourly rather than a monthly basis;
- the determination of hourly heritage volumes by customer class;
- the principles of transfer of excess or unused volumes of heritage electricity among customer classes;
- the unit cost associated with these surpluses for each customer class and an adjustment mechanism that will be necessary to rebalance the total supply cost.

9 CONCLUSION

On the strength of the arguments presented in this exhibit, the Distributor requests approval to:

- dispose, in the subsequent financial year, of the post-heritage supply cost differentials for a given reference year determined on the basis of 4 months of real differentials and 8 months of projected differentials, and to recognize, in the second financial year following, the adjustments required to reflect the final real differentials;
- calculate the differentials for the post-heritage electricity pass-through account **on an annual basis**, not on a monthly basis.
- calculate the interest at the average cost of capital rate on the final account balance as at December 31 of a given year, the interest for the current year as of the following January 1;
- dispose of the pass-through account **without stabilization measures**. There will therefore no longer be any need for a second account within the rate base to contain the balance of the non-rate-base account.

These requests come within the context of the continuance of the current method for allocating costs to the various customer classes. If the Régie opts for marginal treatment, the Distributor will have to revisit the method for allocating this account to the customer classes.

Appendix 1: Impact of loss factors on price differentials and heritage volume

(1)	(2)		(3)		(4)		(5)	(6)	(7)=(2)+(3)+(4)+(5)-(6)
Customer class	Volume differential		Price differential		Revenue differential		Net differential 2005		
	Post-heritage M\$	Heritage M\$	Post-heritage M\$	Heritage M\$	Post-heritage M\$	Heritage M\$	M\$	M\$	
Domestic									
Rates D and DM	11.4	(24.0)	6.4	(0.9)	(20.2)		13.1		
Rate DH	0.0	(0.0)	0.0	(0.0)	(0.0)		0.0		
Rate DT	0.5	(1.5)	0.3	(0.1)	(1.4)		0.5		
Total	11.9	(25.6)	6.7	(1.0)	(21.6)		13.6		
Small and medium power									
Rate G and flat rate	2.9	0.5	1.3	(0.4)	1.5		2.8		
Rate G9	0.2	(0.1)	0.1	(0.0)	0.0		0.2		
Rate M	5.8	4.2	2.6	(0.9)	6.4		5.4		
Public lighting and Sent. rates	0.2	(0.0)	0.1	(0.0)	0.1		0.2		
Total	9.1	4.6	4.1	(1.3)	8.0		8.6		
Large power									
Rate L	8.9	(34.3)	4.6	(1.8)	(32.0)		9.2		
Rate H	0.0	(0.0)	0.0	(0.0)	(0.0)		0.0		
Special contracts	5.2	28.5	0.5	(0.8)	31.3		2.1		
Total	14.0	(5.8)	5.1	(2.7)	(0.7)		11.3		
Total	35.1	(26.7)	15.9	(4.9)	(14.3)		33.5		
Total excluding special contracts							31.4		

¹The impact of loss factors on the post-heritage differentials is automatically included in the pass-through calculation.

²Column (3) indicates the heritage volume differential. It amounts to **\$ -26.7 M** and represents the unused heritage electricity and the impact of the real loss factor.

³Column (4) indicates the heritage price differential: if the heritage costs were adjusted for the real loss factor of 7.86%, the heritage price differential would be **\$15.9 M**. The sum of the differentials in columns (3) and (4) equals **\$ -10.9 M**, corresponding to the heritage volume differential given in column 2 of Table 1 of Exhibit HQD-4, Document 2. This shows that the volume differential and the price differential associated with the loss factor cancel each other out.

Appendix 2: Components of the 2005 and 2006 price differentials

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Customer class	2005 Price differential				Projected 2006 price differential			
	Real ¢/kWh	Projected ¢/kWh	Real GWh	M\$	Real ¢/kWh	Projected ¢/kWh	Real GWh	M\$
Domestic								
Rates D and DM	9.20	9.33	658	(0.9)	12.53	10.97	1 084	17.0
Rate DH	8.94	9.01	0	(0.0)	12.12	10.61	0	0.0
Rate DT	7.61	7.79\	36	(0.1)	10.49	9.18	54	0.7
Total			694	(1.0)			1 138	17.7
Small and medium power								
Rate G and flat rate	8.20	8.40	191	(0.4)	11.29	9.88	252	3.5
Rate G9	7.92	8.14	17	(0.0)	10.93	9.56	22	0.3
Rate M	7.56	7.77	426	(0.9)	10.45	9.15	532	6.9
Public lighting and Sent. rates	7.56	7.61	11	(0.0)	10.35	9.06	11	0.1
Total			644	(1.3)			816	10.9
Large power								
Rate L	6.95	7.16	859	(1.8)	9.64	8.44	918	11.1
Rate H	7.54	7.70	0	(0.0)	10.36	9.06	0	0.0
Special contracts	6.83	7.07	338	(0.8)	9.52	8.33	518	6.2
Total			1 197	(2.7)			1 437	17.2
Total	7.73	7.93	2 534	(4.9)	10.82	9.47	3 391	45.8
Average unit price differential				-0.20 ¢/kWh				1.35 ¢/kWh